



STATE OF ARIZONA

JANICE K. BREWER
GOVERNOR

EXECUTIVE OFFICE

January 7, 2010

The Honorable John McCain
United States Senator
SR-241 Russell Senate Office Building
Washington, DC 20510-0303

Dear Senator McCain:

As you know from my earlier communications to you, I remain very concerned about what is transpiring in Washington, DC and how the health care reform proposals impact Arizona. These decisions will have a tremendous effect on how Arizona brings our spending back in line with available resources. I want to reiterate my request that you oppose healthcare reform legislation that includes maintenance of effort requirements, which will only increase the fiscal burden on states in the near term, regardless of future federal funding for the programs. As I mentioned in my letter, Arizona currently has a Medicaid program that it cannot afford; I think that this will become much more apparent to policy-makers and the public over the next few weeks as the start of the 2010 state legislative session brings a renewed focus on our state budget.

I want to take this opportunity to share with you the information I detailed this week for dozens of CEO's and leaders in Arizona's health care industries regarding some of the important decisions that are being made regarding state finances, and more specifically health care spending. Recently, the legislature passed new, additional reductions to agency budgets totaling \$200 million. This action still leaves a gap of \$1.5 billion that needs to be closed in the last six months of this fiscal year. In the wake of these actions, I was forced to take additional steps to address current year shortfalls.

These steps include the following:

1. Arizona closed off enrollment for any children wanting to participate in our KidsCare program (Arizona's Children's Health Insurance Program). This program currently serves 46,000 children between 100 and 200 percent of the federal poverty level. Over the rest of the fiscal year, it is projected that this program will shrink by thousands of members and save \$3 million through the remainder of the fiscal year.
2. Arizona has recently moved to eliminate \$42 million in Graduate Medical Education (GME) funding for hospitals. As you are aware, we face a physician shortage in our state and GME is an important funding source for our residency programs. However we simply cannot afford to continue to fund this program when we are required to fully fund federally mandated Medicaid populations that continue to grow.
3. Arizona has recently moved to eliminate almost \$26 million in Disproportionate Share Hospital Payments made to private hospitals. These funds are paid to facilities that provide high amounts of

uncompensated care. Although the monies are a significant resource to our safety net hospitals, again, they are expenditures that we can no longer afford.

I am also in the final stages of preparing the Executive Budget that will be presented to the legislature in the next couple of weeks. This plan will address both the current year shortfall, as well as the projected \$3.4 billion deficit in FY 2011. As you can imagine, additional drastic and painful measures will be required in order to address and eliminate this deficit. There are no options, but to reduce the size and scope of services offered by our state government. Therefore, I will propose the following actions as part of my budget:

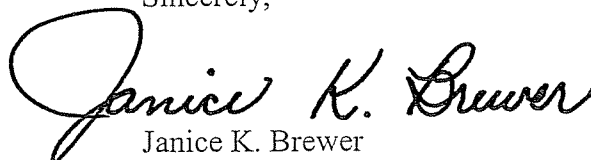
1. I will recommend that Arizona voters be given the opportunity to resize the AHCCCS (Medicaid) expansion back to the level available through the original funding source that was identified by proponents at that time. Originally, voters were told that Tobacco Settlement funds would support the expansion, but the program has required additional General Fund support that will reach \$800 million annually by FY 2010. Currently 350,000 Arizonans are enrolled through this expansion, authorized in 2000, and the vast majority of these citizens will lose coverage if this is approved.
2. I will propose eliminating state-funded behavioral health services, including services to individuals with serious mental illness. Behavioral health has long been one of my top priorities, and my decision to recommend the elimination of these services will underscore the seriousness of our state's fiscal situation to anyone who knows me.

Obviously, I do not enjoy having to make any of these decisions. There is a tremendous amount of pain in each one, and I certainly recognize that each has significant negative consequences associated with them. However, our great State is on the verge of insolvency and these actions are necessary if we have any hope of weathering this crisis.

Finally, I have attached a statement I recently released regarding my perspective on health care reform, and specifically the tremendous negative consequences associated with the Senate proposal. Hopefully the details described above provide you with additional insight into how challenging our state's fiscal situation is and provide context for my viewpoint. Even setting aside any state costs associated with the mandatory expansions, the maintenance of effort requirements in both versions will require us in future fiscal years to make reductions even more drastic than those I describe above. Again, I request that you oppose this legislation on the grounds that it will further strain our already overburdened state finances.

I hope this information is useful for you as you continue your deliberations about any legislation that would impose costs on state budgets. I look forward to our continued dialogue on these issues.

Sincerely,



Janice K. Brewer
Governor



State of Arizona

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Statement by Governor Jan Brewer

Federal Health Care Plan Financially Devastating to Arizona

"As the decade began, Arizona voters enacted an initiative (Proposition 204) to expand low income health care coverage through Medicaid (AHCCCS) in the state. Voters were led to believe that this state expansion would be covered with funding from the nationwide tobacco lawsuit settlement. In other words, they were told that tobacco companies would pay for it – not Arizona taxpayers.

At the time, AHCCCS had a population of 500,000 members and a total budget of \$3.0 billion. Today the program covers nearly 1.4 million Arizonans – nearly 1 in 5 Arizonans – at a cost of \$10 billion. The State matching funds required to fund just the populations expanded as a result of Proposition 204 will be \$900 million while the available tobacco settlement funding is projected to be \$120 million.

Over the past decade, Arizona has been trying to manage largely the same coverage expansion experiment that is currently being contemplated in Washington, DC, except that Congress wants to set the bar even higher.

Today, Arizona government sits on the precipice of fiscal insolvency. A damaged economy that has resulted in the largest percentage loss of jobs in the country combined with excessive government spending has created an enormous budget imbalance. No State program has grown faster than Medicaid.

While the managed care model and public/private partnership of the AHCCCS program have shown tremendous results making AHCCCS a model for cost containment and quality care, Arizona simply cannot afford the entitlement program we have today.

When Congress returns to Washington, DC, to begin 2010, the 8 Arizona members of the U.S. House of Representatives will again be faced with the decision of what to do with the federal

health care legislation. Potentially the House may be asked to concur on the Senate package that was recently passed.

Our Congressional Delegation needs to forcefully reject the Senate bill because it will cause irreparable harm to our State and will only exacerbate our problems here in Arizona. This is the same message I have been delivering to the federal government for months, and it is the message I personally delivered several weeks ago in Washington, DC.

First, the Senate bill creates a new \$4 billion unfunded mandate for the taxpayers of Arizona over the next 10 years. This is another new mandate we cannot afford. If Senate Democrats wish to expand coverage, they should be honest and pay for it – not push the cost responsibilities to states. The proposal does nothing to slow down the costs of health care, but instead creates the single largest entitlement expansion ever created in the United States. Our country cannot manage the entitlements of Medicare and Medicaid programs, as they currently exist. This legislation only exacerbates the problem. In fact, Arizona should return the current AHCCCS program to the voters with a funding source to see if they wish to pay for its costs. I do not support utilizing the temporary one-cent sales tax proposal to fund growing AHCCCS costs.

Second, the Senate bill actually punishes Arizona because (as in 5 other states) it has already expanded coverage (as mandated by the voters) and will not receive the same level of support from Congress as states that did not expand coverage. This inequitable policy treatment results in over \$15 billion in costs to the State through fiscal year 2020 that would not have been incurred without expansion.

Third, the Senate bill redistributes Arizona taxpayer money and gives it to other states (such as Nebraska, Louisiana, Massachusetts, and others) to fund coverage through special side deals.

Finally the Senate bill establishes full federal control of the Medicaid program and eliminates any discretion or options for states to meaningfully control costs.

The Senate bill has turned into such a bad deal for Arizona taxpayers that even a local Democratic legislative leader, a strong advocate for the federal health plan, has said the proposal is “unfair”. Please join me in contacting your elected representatives and encourage them to defeat the massive entitlement expansion, the 2,000 pages of special side deals, and the federal mandates that will devastate Arizona.”

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